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UNCLAS SECTION 01 OF 02 NIAMEY 001181

DEPT FOR AF/W, AF/EPS, AND EEB/IFD

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SUBJECT: GOVT OF NIGER FY09 BUDGET INCREASES 28 PERCENT

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¶1. Summary: On Friday, November 14, 2008, the National Assembly approved the Government of Niger's proposed budget of USD 1.532 billion for 2009, representing an increase of 28.41 percent over the 2008 budget and including significant additional spending for capital projects. The 2009 budget increase is funded in part with a special one-time payment of \$257 million received in June 2008 as a "signing bonus" upon conclusion of a petroleum exploration and development agreement between the Government of Niger and China's state oil firm. Investment expenditure will account for 52 percent of 2009 spending. Top budget priorities are education, health, and agriculture. End summary.

Budget Parameters

¶2. Assumptions: Agriculture remains the main engine of growth, and increased domestic food production is a GON priority. Investment in roads and electric generation and transmission are designed to support the performances of manufacturing and service industry. Other macroeconomic considerations are as follows:

- GDP growth of 4.9 percent, down from 5.5 percent in 2008;
- Inflation rate at 5 percent, down from 9.1 percent; and
- Value Added Tax (VAT) rate of 19 percent unchanged from 2008.

Revenue

¶3. The 2009 budget projects government revenue of USD 1.53 billion, representing a 28 percent increase over the previous year. Internal domestic revenue is budgeted to increase by 26 percent to USD 903.3 million while external revenue, including development assistance and debt, will increase 31 percent to USD 629.3 million.

¶4. The increase in domestic revenue is largely the result of payments received from China as a "signing bonus" for the 2008 agreement on petroleum exploration and development, and increased revenue from uranium mining. The budget also anticipates new fiscal measures, including additional taxes on gambling, lotteries, and duty stamps, which were developed by the Ministry of Economy and Finance in concert with donors as part of the strategy of mobilization of internal resources. In mid-2008, in response to dramatic increases in food prices but without prior discussion with donors or the Ministry of Economy and Finance, the GON suspended VAT and import duty on basic foods, including rice and powdered milk; these charges are to be reinstated. In the final budget, USD 10 million of non-fiscal receipts from mining were re-allocated to a

Special Treasury Account for Funds for Priority Investments to bring the balance of that Fund to USD 31 million. The budget does not clarify how the Fund is to be spent, but it is separate from the capital budget.

Revenue USD (millions at 480 CFA = 1 USD)

EXTERNAL (32 percent increase from 2008)

Donations 377.5

Loans on Projects 185.8

Program Loans 65.8

INTERNAL (26 percent increase from 2008)

Real Estate Sales 0.8

Fiscal Revenue 600.8

Non-Fiscal Revenue 254.0

Exceptional Revenue 37.9

Total 1,532.6

EXPENDITURES

15. A large increase in the capital budget (49 percent higher than 2008) reflects the government's decision to finally begin construction of the large hydroelectric and irrigation dam at Kandadji, which has been in the planning stages for years. Most funding for the multi-year project will be in the form of multilateral loans. Additional new programs funded in the 2009 budget include: reform of the National Postal Service and establishment of a separate postal banking system to be called FINAPOSTE; creation of an agricultural bank; and reform of the microfinance sector. Consistent with the budget priority of

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improved education, the budget for the Ministry of Secondary and Higher Education, Research, and Technology increases by almost 22 percent over the previous year budget. Payments for goods and services increase by 23 percent, while expenditures for subsidies increase by only 8 percent.

Expenditure USD (millions)

National Debt Service 109.4

Employee Salaries and Benefits 194.4

Goods and Services Purchases 180.4

Transfers 234.6

Capital Projects Subsidies and 803.3

Total 1,522.1

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